

Correctly Accounting for Comp Programs

Comp programs are an essential part of the restaurant business, but common losses from fraud and abuse can prove costly. Failing to properly account for comp transactions can result in an inflated tax burden. Paytronix solutions combat fraud and ensure appropriate accounting for your comp transactions.

Loyalty Improvement Series

PAYTRONIX
systems, inc.

Comp Programs: Doubly Costly When Not Properly Handled

Complimentary (comp) programs entitle guests to receive products or special discounts at your restaurants. Whether used as a goodwill gesture to a guest or to extend a privilege to employees, providing comps is a part of doing business.



Restaurants Use a Menu of Comp Programs

EMPLOYEE DINING AND MEALS

Comp Cards for discounted or budgeted meal purchases offered to all or key employees.

CHARITY

Comp Cards make ideal donations to support charitable events like raffles, drawings, or auctions.

GUEST GOODWILL

A manager may issue a Comp Card to reward stellar guests or to compensate for a poor experience.

MARKETING AND PROMOTIONS

Comp Cards are effective promotional tools for events like new store openings or to attract student visits at the start of the school year.

TRADE COMPENSATION

Instead of paying with cash, you may elect to pay your plumber or electrician with a comp card.

Many restaurants manage their comp programs by issuing paper certificates. Paper certificates offer a quick, flexible, on the spot solution to a comp situation. However, these paper certificates are easy targets for fraud and abuse. With little tracking or control, the costs add up quickly.

Other restaurants opt to use gift cards as a means to comp guests. Like paper certificates, gift cards are readily recognized, convenient to issue, and easy for guests to redeem. Unfortunately, comp programs follow distinct financial accounting procedures. Failure to isolate comp transactions from standard gift card transactions creates a "double taxation" penalty that can overstate your sales tax and income tax burden by as much as 12%!



Don't Carry an Undue Tax Burden

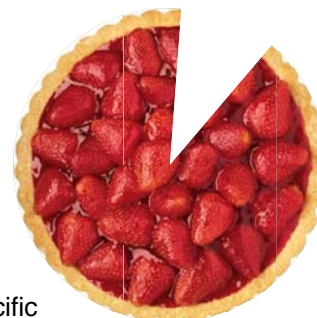
If a guest had a bad meal, we used to reduce their bill with a free item on the spot. We switched our comps to specially marked gift cards which eliminated a tremendous amount of fraud. However, this created a head-ache for accounting and we were never able to fully correct all of the tax issues. Paytronix allows us to use Comp cards the way we had always intended by controlling the issuance and redemption by inserting a discount or comp into the check.

*Andy Mai
Vice President, Information Technology
Elephant Bar*

Comp Program Pain Points: Fraud and Control

Comps typically represent 3-5% of total sales, a meaningful slice of your business. Yet comps are often not well controlled or properly processed. The main risks of poorly administered comp programs include fraud and abuse as well as improper financial accounting.

One in Ten Comp Dollars is Lost to Fraud



Fraud

Inadequate measurement and control of comp programs can result in fraudulent behavior. Paytronix customers report that one in ten controllable comp dollars is commonly lost to fraud. Paper certificates lack inherent controls and are particularly susceptible. Fraud is not limited to paper-based systems; a discount button on your POS system without appropriate controls also invites overuse and abuse.

Improper Financial Accounting

Improper processing of comp transactions can also cause you needless financial losses. Recording the value of comp transactions requires specific accounting treatment. When mishandled, you will fall victim to the “double taxation” penalty.

Fundamentally, this taxation penalty occurs because the comp value is a restaurant expense, not revenue. When you fail to appropriately recognize this expense, you artificially inflate your revenues, overstate your net income, and thus overstate your income and sales tax liability. This overstating is a costly and an unnecessary expense.

Gift Cards and Comp Cards May Look Identical to Your Guests, But They Hold Very Different Financial Implications to You



Purchased by Guest	How Issued	Provided by Restaurant
Liability	Financial Classification When Issued	Expense*
Revenue	Financial Treatment upon Redemption	Expense*
Yes	Subject to Sales Tax and Income Tax	No
Yes	Subject to State Tax Escheatment	No

* Our Customers typically take the expense either at the time of issue or redemption as company accounting policy dictates.

This taxation penalty often arises when comp situations are handled by issuing a gift card. A gift card is the wrong device for comp transactions. Comp cards and gift cards are both valuable elements in retaining and attracting guests. However,

they are distinctly different instruments.

- A gift card is *sold* to guests, represents taxable revenue, and appears on the balance sheet as an accounting liability until redemption.
- The value on a comp card is recognized as an accounting expense. A comp should appear as a discount that lowers the subtotal of a guests' check and reduces the amount of tax associated with the transaction. The comp is *given* to a guest – not sold – and therefore should be reflected as a business expense, not as revenue.

For this reason, using gift cards overstates sales and results in an inflated tax burden.

In some instances, mixing comps and gift cards results in severe consequences: Some companies have had to re-state earnings (when not working with Paytronix) to correct for improper comp treatment. This is because they could not differentiate their comp and gift card balances and were forced by auditors to expense 25% of the combined outstanding balance.

Many chains try to back-out the comp transactions in their general ledger. It is difficult to differentiate these transactions and to accurately account for the amount of comps extended. For example, some companies require that receipts be mailed to corporate for processing. This is a labor intensive process where lost and unidentified receipts understate the true comp amounts.

Plus, you cannot back out the sales tax. States generally conduct audits based on POS reports, not general ledger data. Assigning proper tax rates gets very complex when a check has different items with different tax rates and is paid with comp and other tenders.

Biaggi's constantly receives requests for various types of Comps. Managing these requests and keeping to budget was a real challenge. Paytronix has provided us with a platform which allows us to track comp usages and activations by type, location, manager and server. This level of control has enabled us to feel confident with our comp card program. It has made a big difference to our senior management team and the finance staff. We even use the Paytronix reports as one of our internal performance measures.

*Ernie Hernandez
Director of Information Technology
Biaggi's Ristorante Italiano*

Paytronix Offers Secure, Accurate Comp Solutions

Paytronix provides integrated solutions to guard against fraud and accurately handle the accounting complexities of your comp programs. The Paytronix reporting system also gives you detailed information about who is issuing comps and for what purpose so you can actively manage your comp programs.

The Paytronix Comp Card solutions lead the industry. We know that fraud and mishandled comp programs cost you money. Our Comp Cards provide you with a safe, practical way to offer complimentary value to guests while arresting fraud and assuring the proper accounting for every comp transaction.

How Paytronix Handles Comp Cards

Like gift cards, Comp Cards hold a specific dollar value. Since they are *given* to guests – not sold – they must be accounted for differently both at issuance and at redemption. Our systems ensure this tracking is done accurately and without manual intervention.

Paytronix understands the accounting intricacies and our systems are designed to handle these complexities. We ease your administrative burden by facilitating effective execution at the point of sale.

ACCURATELY MANAGE COMP REDEMPTIONS FOR YOU AND YOUR GUEST

When redeemed, the comp value appears as a discount and reduces the check subtotal prior to payment. This ensures that your guests recognize the benefits and you can accurately account for revenue recognition and sales tax liability.

We used gift cards as comp cards for a long time with another provider. Paytronix has the only solution we could find that allowed us to treat a Comp card as a discount at the POS. Switching to Paytronix has solved an accounting head-ache for us and improved the tax treatment of Comp cards.

*Daniel Legh-Page
Restaurant Support Manager
Carino's Italian*

DIFFERENTIATE COMP CARDS FROM GIFT CARDS

Comp Cards and Gift Cards hold different value for your business and require different accounting treatment. Paytronix solutions enable you to separate these different programs and manage each appropriately.

TRACK AND CONTROL YOUR COMP PROGRAMS

Powerful reporting capabilities make it easy to track and understand your comp programs. Armed with knowledge of comp card issuance and redemption details, you can make adjustments to ensure the administration of your programs aligns with your policies and objectives.

PROVIDE FLEXIBILITY TO MEET YOUR NEEDS

Comp programs are part of the total Paytronix solution. We can create Comp Card solutions as part of a comprehensive loyalty program designed specifically to achieve your objectives.

A well executed Comp Card program provides a secure, convenient method for offering your guests valuable discounts. To learn more about improving your Comp programs, contact us.



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The Loyalty Improvement Series

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